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SUBJECT: AUSTRALIA: URANIUM MINING SET TO TAKE OFF

¶1. (SBU) SUMMARY: Australia holds one third of world uranium reserves and is the second largest exporter of uranium. The removals of restrictions on uranium mining and increasing overseas demand have contributed to a sharp rise in uranium mining investment. The number of projects in various stages of planning explains why mining industry insiders expect strong growth in uranium exports, especially to China. Nevertheless, PM Rudd's Government continues to rule out a nuclear power industry, an international nuclear waste storage site, and supply of uranium to countries that have not signed the Nuclear Non-Proliferation Treaty. The uranium industry claims there is a potential to increase exports fourfold, while a major union wants expansion of uranium mining and consideration of domestic nuclear power. END SUMMARY.

Uranium: Lots of It

¶2. (U) Australia, with a current annual production of around 10,000 tons, is the largest high-quality uranium supplier in the world, accounting for one third of world reserves and around 40% of low-cost reserves. Until November 2008, the country's uranium production was limited to three mines (Ranger, Olympic Dam and Beverley; which supply between 20-25% of the world market).

Forecast: Aggressive Export Growth

¶3. (SBU) The removal of the Labor party's "Three Mines" policy (which limited uranium production to the three above-mentioned mines and was strongly supported by Resources Minister Martin Ferguson), the lifting of the ban on uranium exports from Western Australia, and increasing overseas demand has increased focus on the industry. Further, commercial deposits of uranium have been found in the Northern Territory, South Australia, Western Australia and Queensland (though the Queensland state government still bans uranium mining). According to a September survey by Australian Bureau of Agricultural and Resource Economics, the value of Australia's uranium exports is forecast to rise by 11% to A\$1.1 billion in 2009-10.

Many Projects in the Pipeline

¶4. (SBU) Projects being negotiated, planned, and executed include:

-- Canadian-based Mega hopes to begin production from its Lake Maitland, Western Australia mine (11.4 kilotons of uranium oxide at 100 parts per million and an expected lifespan of 10-12 years at up to 750 tons yearly) in the first half of 2012.

-- Toro Energy plans to start production from its Lake Way, Western Australia mine in late 2012 or early 2013.

-- Mining giant BHP Billiton will soon begin production from its Honeymoon mine in South Australia.

-- BHP Vice-President for Government Relations Ian Fletcher told Econoff the company is targeting initial production from its new mine in Yeelirrie, Western Australia (52.2 kilotons of uranium oxide) by 2014, subject to GOA and BHP Board approvals, which are expected by 2012.

-- Mining rival Rio Tinto, for its part, has a 68% interest in Energy Resources Australia's Ranger mine, located in Northern Territory.

Australian Supply & World Price

15. (U) Fluctuation of Australia's uranium supply is affecting global markets. BHP Billiton announced on October 22 that it would be unable to fulfill supply commitments to international power companies. A shaft collapse at BHP's Olympic Dam in South Australia will take up to six months to fix, meaning production will not return to normal until April 2010. Olympic Dam, the world's largest known uranium deposit representing 8% of world output, will operate at only 25% of capacity over this period. World uranium price rose 7% over the last two weeks to USD 47 partly because of the incident.

CANBERRA 00000977 002 OF 002

China: Big, Long-Term Importer

16. (SBU) Referring to China's projected four-fold increase in nuclear energy by 2020, Resources and Energy Minister Martin Ferguson noted recently that it "opens up new opportunities for Australia." China, however, is no longer just buying uranium, but also trying to invest in its mining and production. In September, Chinese state-owned power producer China Guangdong Nuclear Power Holding (CGNPH), which operates four nuclear power plants in China, offered to buy up to 70% of Energy Metals, which is searching for uranium in nine locations across Australia, for A\$70 million. Australian Nuclear Science and Technology Organization Chairman Dr. Ziggy Switkowski, opined the CGNPH investment to be "just the first of many," as China and the world eye Australia's uranium to meet their energy needs. The bid is subject to approval from the Chinese and Australian governments.

No Government Appetite for Policy Changes

17. (SBU) The Rudd government -- which ran a scare campaign on nuclear power during the last election campaign -- officially does not support uranium enrichment or the development of nuclear power. Australia stores its limited nuclear waste at its Lucas Heights nuclear reactor site, but it opposes storing the world's nuclear waste -- an option the Howard government was considering. Furthermore, Australia doesn't export uranium to countries not party to the Nuclear Non-Proliferation Treaty. It overturned a deal struck by the previous government to export uranium to India and put on hold an in-principle agreement by the previous government to supply uranium to Russia over concerns this would free up uranium for weapons.

18. (SBU) Some Opposition MPs want consideration of nuclear power, as does the powerful Australian Workers Union (privately some ALP MPs do as well). Expressing a view shared by others, the Shadow Resources Minister said the GOA is not as opposed to the nuclear industry as portrayed and is prepared to revisit the policy should public opinion turn. Despite current opposition to nuclear power at home, the GOA asserts it has an obligation to export uranium to

countries which lack Australia's abundant energy supplies.

19. (SBU) Comment: Australia is likely to dramatically increase uranium exports. As a signatory to the Nuclear Non-Proliferation Regime with very low political risk, Australia is attractive to international investors who are looking for a reliable uranium source. There is little political appetite in Australia for changes to its nuclear policy, but growth of uranium mining and the climate change debate will likely provide opportunity for issues such as nuclear waste storage and nuclear energy to gain a higher profile.

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